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**NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION FROM ANY INSTRUMENT THAT TRANSFERS AN INTEREST IN REAL PROPERTY BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.**

**OIL AND GAS LEASE**  
(No Surface Use; Paid Up Lease)

This Oil and Gas Lease (this "Lease") is made on July 22, 2008 between

Tim D. Bradford and Linda R. Bradford  
(hereafter called "Lessor"), whose address is:

405 Shady Lane Southlake, TX 76092,  
and **CHESAPEAKE EXPLORATION, L.L.C., an Oklahoma Limited Liability Company,**  
(hereafter called "Lessee"), whose address is **P.O. Box 18496, Oklahoma City, Oklahoma**  
**73154-0496.**

1. **Grant.** In consideration of Ten Dollars and other consideration in hand paid, Lessor grants and leases exclusively unto Lessee the land described in attached Exhibit A (the "Land") in Tarrant County, Texas, for the sole purpose of exploring, drilling, and producing oil and gas, and to produce, save and transport oil and gas and other products manufactured from oil and gas produced from the Land, but only as to depths from a depth of 1,000 feet beneath the surface down to the base of the Barnett Shale formation. This lease also covers and includes any interest which Lessor may own in any street, alley, highway, railroad, canal, river, body of water, contiguous or adjacent to the Land, whether the same be in said survey or surveys or in adjacent surveys, although not included within the boundaries of the land particularly described above.

2. **Primary Term.** This Lease is for a term of three (3) years from the date first written above (called "Primary Term") and so long thereafter as oil or gas is produced from the Land in paying quantities. Lessor, and their successors and assigns, hereby grants Lessee an option to extend the primary term of this lease for an additional period of two (2) years from the end of the primary term by paying or tendering to Lessor prior to the end of the primary term bonus consideration of \$18,000 per net mineral acre.

3. **Minerals Covered.** This Lease covers only oil and gas. The term "oil and gas" means oil, gas, and other liquid and gaseous hydrocarbons produced through a well bore. All other substances and minerals (including water) are excepted from this Lease and reserved to Lessor.

4. **Royalty.**

(a) As royalties, Lessee agrees:

(1) To pay to Lessor, on oil, gas, and other liquid hydrocarbons produced and saved from the Land, Twenty-Five Percent (25%) (the "Royalty Fraction") of the market value at the point of sale of such oil, gas, and other liquid hydrocarbons or at Lessor's option, which may be exercised from time to time, the Royalty Fraction of all oil, gas, and other liquid hydrocarbons produced and saved from the Land shall be delivered free of expense or cost or expense to Lessor at the wells or to the credit of Lessor at the pipeline to which the wells may be connected.

(2) To pay to Lessor:

(i) The Royalty Fraction of all oil (including distillate or condensate and other liquid hydrocarbons) produced and saved from the Land, the same to be delivered at the well or to the credit of Lessor into the pipeline to which the well or wells may be connected.

(ii) The Royalty Fraction of the gross proceeds received by Lessee at the point of delivery or first sale of all gas, including casinghead gas or other gaseous substances, produced from the Land.

(iii) The Royalty Fraction of the gross proceeds of all plant products (including residue gas), free of any processing cost, where gas is processed in a plant on or off the Land by Lessee or any affiliated person or entity, and if processed, but not by Lessee or an affiliated person or entity, the Royalty Fraction of that part of the gross proceeds received by Lessee for the processed gas and products therefrom that are allocable to the production from the Land.

(iv) On gas produced from the Land and sold by Lessee or used off the Land and to which the preceding subparagraphs (ii) and (iii) do not apply, the Royalty Fraction of the market value at the point of sale, use or other disposition.

(v) On gas produced from the Land that is processed in a processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the Royalty Fraction of the market value of the gas at the inlet to the processing plant, or the Royalty Fraction of the market value of all processed liquids saved from the gas at the plant plus the Royalty Fraction of the market value of all residue gas at the point of sale, use, or other disposition.

(vi) On gas produced from the Land that is processed in facilities other than a processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the Royalty Fraction of the gross proceeds at the plant of all processed liquids credited to the account of Lessee and attributable to the gas plus the Royalty Fraction of the gross proceeds of all residue gas at the point of sale, use, or other disposition.

(b) The market value of gas will be determined at the wellhead by reference to the gross heating value (measured in British thermal units) and quality of the gas. The market value used in the calculation of oil and gas royalty will never be less than the total proceeds received by Lessee in connection with the sale, use, or other disposition of the oil and/or gas produced or sold. For purposes of this paragraph, if Lessee receives from a purchaser of oil or gas any reimbursement for all or any part of severance or production taxes, or if Lessee realizes proceeds of production after deduction for any expense of production, gathering, dehydration, separation, compression, transportation, treatment, processing, storage, marketing, or remediation, then the reimbursement or the deductions will be added to the total proceeds received by Lessee. Royalty will be payable on oil and gas produced from the Land and consumed by Lessee on the Land for compression, dehydration, fuel, or other use.

It is agreed between the Lessor and Lessee, that, notwithstanding any language herein to the contrary, all oil, gas or other proceeds accruing to the Lessor under this Lease or by state law shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and marketing the oil, gas and other products produced hereunder to transform the product into marketable form. Further, it is agreed between the Lessor and Lessee, that, notwithstanding any language herein to the contrary, all oil, gas or other proceeds accruing to the Lessor under this lease or by state law shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and marketing the oil, gas and other products produced hereunder to transform the product into marketable form; however, notwithstanding anything contained herein to the contrary, any such costs which result in enhancing the value of the marketable oil, gas or other products to receive a better price may be deducted from Lessor's share of production, on a pro-rata basis, so long as they are based on Lessee's actual additional cost of such enhancements, but only to the extent of the increase in price attributable to said enhancements. However, in no event shall Lessor receive a price that is less than the price received by Lessee. In no event shall Lessor receive a price that is less than the price received by Lessee from an arms-length contract with a purchaser that is not an affiliate of Lessee. It is the specific intent of the parties to this Lease that this provision is to be treated as enforceable as written and is not to be deemed "surplusage" under the principals set forth in *Heritage Resources, Inc. v. Nations Bank*, 939 S.W.2d 118 (Tex. 1996).

(c) If gas produced from the Land or lands pooled herewith is sold by Lessee pursuant to an arms-length contract with a purchaser that is not an affiliate of Lessee, and the

contract provides for net proceeds to be paid to Lessee that equal or exceed the market value of the gas at the point of delivery to the purchaser, and for a term no longer than that which is usual and customary in the industry at the time the contract is made, then the market value of the gas sold pursuant to the contract shall be the total proceeds received by Lessee in the sale, subject to the provisions of paragraph 4(b) above.

(d) Lessor shall be paid the Royalty Fraction of all payments and other benefits made under any oil or gas sales contract or other arrangement, including take-or-pay payments and payments received in settlement of disputes; provided that if Lessor receives a take-or-pay payment or similar payment for gas that has not been produced, and if the gas is subsequently produced, Lessor will receive only its Royalty Fraction of the market value of the volume of gas for which payment has not already been made.

(e) Lessee must disburse or cause to be disbursed to Lessor its royalty on production from a particular well not later than 120 days after completion of the well, in the case of an oil well, or after the pipeline connection, in the case of a gas well. Thereafter, Lessee must disburse or cause to be disbursed to Lessor its royalty on production by the last day of the second month after the month of production. If not paid when due, Lessor's royalty will bear interest at the maximum lawful rate from due date until paid, which amount Lessee agrees to pay. Acceptance by Lessor of royalties that are past due will not act as a waiver or estoppel of its right to receive interest due thereon unless Lessor expressly so provides in writing signed by Lessor. Notwithstanding anything to the contrary contained in this Lease, should a royalty payment not be made for a period of 120 days from the anniversary date of the due date as provided for in this Lease, unless there is then in effect another applicable preservation provision of this Lease, Lessor may, at Lessor's option, elect to terminate the applicable portion of this Lease by sending written notice to Lessee by certified mail. Lessee shall then have ninety (90) days from the date of service of such written notice in which to avoid termination of the Lease by making or causing to be made the proper royalty payment. If such royalty payment is not made on or before the expiration of said 90 day period, or written approval is not obtained from Lessor to defer such payment, Lessor may elect to terminate the Lease by filing a Notice of Termination with the County Clerk in the county where the Land is located. The effective date of said termination shall be the date said Notice of Termination is filed with the said County Clerk. The royalty payment obligations under this Lease shall not be affected by any division order or the provisions of the Section 91.402 of the Texas Natural Resources Code or any similar statute. However, Lessor shall, upon request by Lessee execute a division order that conforms with Section 91.402 of the Texas Natural Resources Code.

(f) As used in this Lease, "affiliate" means (i) a corporation, joint venture, partnership, or other entity that owns more than ten percent of the outstanding voting interest of Lessee or in which Lessee owns more than ten percent of the outstanding voting interest; or (ii) a corporation, joint venture, partnership, or other entity in which, together with Lessee, more than ten percent of the outstanding voting interests of both Lessee and the other corporation, joint venture, partnership, or other entity is owned or controlled by the same persons or group of persons.

(g) The receipt by Lessee from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee acquiring legal or equitable title to those proceeds, but Lessee will at all times hold the proceeds in trust for the benefit of Lessor. Notwithstanding the insolvency, bankruptcy, or other business failure of a purchaser of production from the Land or pipeline company transporting production from the Land, Lessee will remain liable for payment to Lessor for, and agrees to pay Lessor all royalties due Lessor together with interest if not timely paid.

**5. Shut-in Royalty.** While there is a gas well on this Lease, the Land or on lands pooled with the Land, which is capable of producing in paying quantities, but gas is not being sold, at the end of the Primary Term or any time thereafter, Lessee shall pay or tender in advance an annual shut-in royalty of \$100 per net mineral acre. Payment with respect to a well will be due within 90 days after the well is shut-in. While shut-in royalty payments are timely and properly paid, this Lease will be held as a producing lease. The obligation of Lessee to pay shut-in royalty is a condition and not a covenant. The payment or tender of royalty under this paragraph may be made by the check of Lessee mailed or delivered to the parties entitled thereto on or before the due date. Lessee may exercise its right to make shut-in royalty payments as provided for herein from time to time; however, this Lease may be maintained by such shut-in

payments only if Lessee is exercising reasonable, bona fide diligence and best efforts in attempting to produce, market and sell gas hereunder. Notwithstanding anything herein to the contrary, this Lease shall not be maintained by shut-in royalty payments for periods totaling more than two (2) consecutive years or three (3) years in the aggregate.

**6. Continuous Development.** If, at the expiration of the Primary Term, oil or gas is not being produced from the Land or lands pooled herewith, but Lessee has commenced the drilling of a well on the Land or lands pooled herewith, the Lease will not terminate but will remain in effect for so long thereafter as operations are carried out with due diligence with no cessation of more than 90 days, and if the operations result in the production of oil or gas, the Lease shall remain in force as otherwise provided herein. For the purposes of this Lease, the term "operations" means operations for any of the following: drilling, testing, completing, reworking, recompleting, deepening, plugging back, or repairing of a well in search for or in the endeavor to obtain production of oil or gas. Further, the term "production" in this Lease means production in paying quantities.

(a) If this Lease is maintained beyond the expiration of the Primary Term by production or otherwise, it will remain in force as to all acreage and depths as long as there is no lapse of more than 120 days between the completion of one well and the commencement of the actual drilling of another well. The commencement of actual drilling means the penetration of the surface with a drilling rig capable of drilling to the anticipated total depth of the well. After a well is commenced, drilling operations must continue in a good and workmanlike manner in a good faith effort to reach the anticipated total depth with no cessation of operations for more than 90 consecutive days. A well will be deemed to have been completed on the date of the release of the drilling rig from the drillsite and any completion operations cease. The permitted time between wells shall be cumulative so that if a well is commenced prior to the date it is required to be commenced, the number of days prior to the date on which the well should have been commenced shall be added to the time permitted for the next well.

(b) Lessee shall drill as many horizontal wells from each drillsite as is the lesser in density (i.e. the fewer amount of wells) of (i) one well per 40 acres in the pooled unit, or (ii) that which is reasonably practicable in accordance with good oilfield practices and taking into account all geological and geophysical information known to Lessee. Further, Lessee will use reasonable efforts to locate each drillsite in such a manner as to facilitate the drilling of as many wells as possible from such drillsite in order to minimize the number of drillsites on lands pooled herewith.

**7. Pooling.** Lessee shall have the right to pool all of the Land or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the Land, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well which is not a horizontal completion shall not exceed 40 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means an oil or gas well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the Land shall be treated as if it were production, drilling or reworking operations on the Land, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this Lease and included in the unit bears to the total gross acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder,

and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority; however, written consent of Lessor shall be first obtained before Lessee constricts a pooled unit that includes the Land. Further, in making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the Land is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

The pooled unit will become effective when Lessee files in the Real Property Records of the county where the Land is located a document describing the pooled acreage and depths for the pooled unit. Lessee may at its election exercise its pooling option before or after commencing operations. Operations for drilling on or production of oil or gas from any part of a pooled unit that includes the Land covered by this Lease shall be considered as operations on or production of oil or gas from the portion of the Land included in the pooled unit. There shall be allocated to the Land included in the pooled unit that prorated portion of the oil and gas, or either of them, produced from the pooled unit that the number of mineral acres of the Land included in the unit bears to the total number of mineral acres included in the unit. Royalties shall be computed on the portion of production allocated to the Land. No part of the Land may be included in a pooled unit unless all of the Land is included in said pooled unit.

8. **Offset Wells.** For purposes of this Lease, an "offsetting well" is a well that is producing oil or gas from adjacent or nearby land not pooled with the Land and is draining the Land. If an offsetting well is completed and the Land is not in a unit with ongoing operations or production, Lessee must, as would a reasonably prudent operator under similar circumstances, within 120 days after the date of first sales from the offsetting well, commence operations for the drilling of an offset well on lands pooled herewith and must diligently pursue those operations to the horizon in which the offsetting well is producing. A well producing from within 467 feet of the Land or lands pooled herewith will be conclusively presumed to be draining the Land.

9. **NO SURFACE OPERATIONS. NOTWITHSTANDING ANY LANGUAGE CONTAINED HEREIN TO THE CONTRARY, LESSEE HEREBY WAIVES AND RELEASES ALL SURFACE RIGHTS OF EVERY KIND AND NATURE ACQUIRED UNDER THIS LEASE, IF ANY. ACCORDINGLY, LESSEE SHALL NOT (I) CONDUCT ANY SURFACE OPERATIONS WHATSOEVER UPON THE LAND, (II) PLACE ANY PERSONAL PROPERTY, FIXTURES OR EQUIPMENT UPON THE LAND, OR (III) ENTER UPON THE LAND FOR ANY REASON OR FOR ANY AMOUNT OF TIME; HOWEVER, THIS LIMITATION SHALL NOT AFFECT THE RIGHT OF LESSEE OR ITS SUCCESSORS AND ASSIGNS TO UTILIZE THE SUBSURFACE OF THE LAND OR ENGAGE IN DIRECTIONAL OR HORIZONTAL DRILLING ACTIVITY WHICH COMES UNDER THE LAND AND/OR FROM POOLING IN ACCORDANCE WITH THIS LEASE, AS LONG AS SAID DRILLING ACTIVITY IS AT A DEPTH SO AS TO NOT INTERFERE WITH OR IN ANY WAY EFFECT THE PRESENT OR FUTURE USE OF THE SURFACE OF THE LAND FOR RESIDENTIAL OR ANY OTHER USE, AND IN NO EVENT MAY THE MINING OR DRILLING ACTIVITY PENETRATE THE LAND AT A DEPTH OF LESS THAN 1000 FEET BELOW THE SURFACE WITHOUT CONSENT OF LESSOR, WHICH SHALL NOT BE UNREASONABLY WITHHELD. FURTHER, LESSEE WILL MEET ALL CITY ORDINANCES IN THE DRILLING OF WELLS FROM SURFACE LOCATIONS THAT OFFSET THE LAND, BUT IN NO EVENT SHALL LESSEE DRILL A WELL AT A SURFACE LOCATION THAT IS WITHIN 600 FEET OF THE LAND, UNLESS LESSEE HAS RECEIVED A PERMIT ALLOWING SUCH LOCATIONS TO BE WITHIN 600 FEET OR LESSEE HAS OBTAINED WRITTEN WAIVERS FROM PROPERTY OWNERS WITHIN 600 FEET OF SUCH PROPOSED SURFACE LOCATION. THIS PROVISION SHALL SURVIVE TERMINATION OF THE LEASE.**

10. **Assignments.** The rights and estate of any party hereto may be assigned from time to time in whole or in part and as to any mineral or horizon. Lessee shall notify Lessor in

writing of any assignment or sublease of this Lease with the exception of assignments being made to officers, directors, and/or subsidiaries of Lessee. Any such assignment of this lease in whole or in part shall not release the original named Lessee herein from any damages, liabilities or obligations attributable to, resulting or arising from, or incurred in connection with, any actions or inactions of Lessee prior to the effective date of such assignment. And all assignments by Lessee must require the assignee to assume all of Lessee's obligations under this Lease, and Lessee and its assignees and sublessee's shall be joint and severally liable for all of Lessee's obligations under this Lease.

**11. Force Majeure.** Should Lessee be wholly prevented by reason of Force Majeure from complying with any express or implied covenant of this Lease (other than a requirement to pay money that has accrued and was due prior to the Force Majeure event), from conducting drilling or reworking operations on lands pooled with the Land, then while so prevented, that covenant will be suspended; Lessee will not be liable for damages for failure to comply therewith; this Lease will be extended so long as Lessee is prevented from conducting drilling or reworking operations on or from lands pooled with the Land, but in no event for more than eighteen months cumulative and the time while Lessee is so prevented will not be counted against Lessee. "Force Majeure" means any Act of God, riot, war, strike, insurrection, any federal or state law, or any rule or regulation of governmental authority, or other similar cause (other than financial reasons) or for any other occurrence beyond Lessee's reasonable control, BUT NOT for the lack of a suitable market or price for the gas produced from the Land or lands pooled herewith. Before the provisions of this paragraph may be relied upon by Lessee, Lessee must first furnish written notice to Lessor, within a reasonable time after the first day of the provisions hereof are relied upon, of such event, giving the beginning date thereof; and, within 60 days time after such event ceases, notify Lessor of the resumption of activities, and Lessee shall be obligated to seek exceptions from any order, rule, regulation of governmental authority if the facts would raise grounds for seeking exceptions. This paragraph is in all things subject to the limitations of time during which this Lease may be continued in force by the payment of shut-in gas royalties.

**12. No Warranties.** Lessor makes no warranty of any kind, either express or implied, with respect to title to the Land or the minerals subject to this Lease. However, if Lessor owns an interest in the Land or the minerals subject to this Lease less than the entire fee simple estate, then the royalties payable hereunder will be reduced proportionately. By acceptance of this Lease, Lessee acknowledges that it has been given full opportunity to investigate and has conducted sufficient investigation to satisfy itself as to the title to the Land and the minerals subject to this Lease, and Lessee assumes all risk of title failures, and in connection therewith Lessee shall have no recourse against Lessor, including no right to a refund of the bonus and royalties paid for or under this Lease. Further, in the event Lessor does not own all of the minerals subject to this Lease, Lessee agrees that it will not conduct operations or participate in operations upon the surface of the Land. This provision shall survive termination of the Lease.

**13. Notices.** All notices will be deemed given and reports will be deemed delivered if sent by certified letter, return receipt requested, properly addressed and deposited in the United States Postal Service, postage prepaid, to Lessor and Lessee at the addresses shown above. Either party may designate a new address by written notice to the other party.

**14. Attorney's Fees.** In the event that Lessor or Lessee is required to employ legal counsel for the enforcement of any provision of this Lease and receives a final unappealable judgment, the prevailing party will be entitled to recover from the other party the reasonable attorney's fees and expenses incurred by said party.

**15. Insurance.** At all times while this Lease is in force, Lessee shall acquire and maintain appropriate insurance covering all of its activities and operations hereunder, including any work performed on its behalf by contractors, subcontractors, and others. The policies shall include at least coverage for comprehensive general liability, for bodily injury and property damage, blowout and loss of well coverage, and coverage for any damage to the environment, including coverage for the cost of clean up and surface remediation, and shall follow the greater in coverage of the current and/or any future insurance requirements set forth in the Southlake City Ordinances.

**16. Indemnity.** LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, EMPLOYEES, TRUSTEES, VOLUNTEERS, AGENTS, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE, INCLUDING WITHOUT LIMITATION THOSE FOR INJURY TO OR DEATH OF PERSONS AND LOSS OR DAMAGE TO PROPERTY, WHETHER THE CLAIMS ARE BROUGHT OR PURSUED AS CLAIMS OF NEGLIGENCE, BREACH OF CONTRACT, NUISANCE, TORT, STRICT LIABILITY, OR OTHERWISE, AND INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEY FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY OR RELATED TO LESSEE'S ACTIVITIES AND OPERATIONS ON THE LAND, OR CLAIMS BROUGHT OR ASSERTED BY PERSONS OR ENTITIES IN CONNECTION WITH LESSEE'S OPERATIONS AND ACTIVITIES, OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND, OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. LESSEE'S PAYMENT OR REIMBURSEMENT OBLIGATIONS UNDER THIS PROVISION SHALL BE REMEDIED WITHIN NINETY (90) DAYS OF LESSEE'S RECEIPT OF WRITTEN NOTICE OF SAID OBLIGATION, UNLESS LESSEE OBJECTS TO ITS INDEMNIFICATION OBLIGATION RELATED THERETO. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS INDEPENDENT CONTRACTORS. ADDITIONALLY, UPON RECEIVING ANY NOTICE REGARDING ANY ENVIRONMENTAL, POLLUTION OR CONTAMINATION PROBLEM OR VIOLATION OF ANY LAW, RULE OR REGULATION, LESSEE WILL FORWARD A COPY OF SAME TO LESSOR BY CERTIFIED MAIL WITHIN SIXTY (60) DAYS. AS USED IN THIS PARAGRAPH, THE TERM "LAND" INCLUDES THE LAND COVERED BY THIS LEASE OR ANY LANDS POOLED THEREWITH. LESSEE'S INDEMNITY OBLIGATIONS SURVIVE THE TERMINATION OF THIS LEASE.

**17. Payment of Royalties.** The rights of Lessor under this Lease shall be in addition to, and not in lieu of, all rights Lessor may have as to payment of royalty under Texas law, including, without limitation, V.T.C.A. NATURAL RESOURCES CODE §§ 91.401 through 91.405.

**18. Inspection of Lessee's Records.** Upon written request, Lessor and/or Lessor's representatives shall have the right to inspect all lease and title records and well records of Lessee relating to this Lease, operations conducted on or in connection with this Lease or lands pooled herein, and the sale and marketing of production from the Lease, including contracts for the sale of any production from the Lease, and the payment of royalties, including the right to audit Lessee's books insofar as they relate to the foregoing. Such inspection shall be limited to an annual basis only and during Lessee's normal business hours.

**19. Implied Covenants.** Nothing in this Lease negates the implied covenants imposed upon Lessee under applicable law.

**20. Division Orders.** If Lessee shall require the execution of a division order for payment of royalty payable under this lease, then the only form of division order permitted for Lessee's use shall be such form promulgated by the State of Texas and set forth in Section 91.402(d), of the Texas Natural Resources Code as amended from time to time, or a form in compliance with said statute. Transfer orders, if required, shall be solely for the purpose of confirming the interest transferred by Lessor. In the event of production, all division orders prepared by Lessee and its assigns shall eliminate all references to ratification of Lessee's acts and ratification of any related gas or oil purchase contracts. If such statements are contained therein, such ratifications are void and of no effect. Any amendment, alteration, extension or ratification of this Lease, or of any term or provision of this Lease, shall be made only by an instrument clearly denominating its purpose and effect, describing the specific terms or provisions affected and the proposed change or modification hereof, and executed by the party against whom any such amendment, alteration, extension or ratification is sought to be enforced, and any purported amendment, alteration, extension or ratification not so drafted shall be of no force or effect. Lessor royalty payment will have a clear, understandable report that sets forth the mcf and mmbtu produced, and the volume and location of all fuel or volume reductions to Lessor's share and all other information necessary to calculate the royalty payment. Lessee's failure to do so may be considered bad faith under this business endeavor.



**21. Compliance With Governing Law.** Lessee will conduct all operations under this Lease and/or on lands pooled herewith in compliance with the current and future rules of the Railroad Commission of Texas, and all federal, state and local laws, rules, regulations, and ordinances, including without limitation all environmental laws, rules, regulations and ordinances.

**22. Excess Royalty Payments.** Any payment of royalty or Shut-in Royalty hereunder paid to Lessor in excess of the amount actually due to the Lessor shall nevertheless become the property of Lessor if Lessee does not make written request to Lessor for reimbursement within one (1) year from the date that Lessor received the erroneous payment, it being agreed and expressly understood between the parties hereto that Lessor is not the collecting agent for any other royalty owner under the Land, and a determination of the name, interest ownership and whereabouts of any person entitled to any payment whatsoever under the terms hereof shall be the sole responsibility of Lessee. It is further expressly agreed and understood that this provision shall in no way diminish the obligation of Lessee to make full and punctual payments of all amounts due to Lessor or to any other person under the terms and provisions of this Lease. If Lessee provides proper and timely notice to Lessor of any overpayments made to Lessor, such overpayments shall only be made up by Lessee against future royalty payments to Lessor not to exceed more than twenty five percent (25%) of any monthly royalty payment due Lessor. Should such monthly royalty payments cease under this Lease prior to Lessee recouping any such overpayments out of a portion of Lessor's monthly royalty, Lessee shall absorb such loss in its entirety without any liability to or reimbursement from Lessor.

**23. Depth Severance.** At the end of the primary term of this Lease, or any extension thereof, this Lease shall terminate as to all depths lying one hundred feet (100') below the stratigraphic equivalent of the deepest formation from which any well commenced in the primary term or any extension thereof is drilled and completed as a well capable of commercial production in paying quantities on any lands pooled with all or part of the Land.

**24. Damages.** Should Lessor or tenants on the Land suffer loss or damage to trees, water wells, fences and other personal property, buildings or other improvements as a result of Lessee's operations, including without exception fracing or water contamination under the terms of this Lease, Lessee agrees to pay Lessor or tenants the actual amount of their loss or damage, and any costs, expenses and/or attorneys' fees incurred in connection therewith. Lessor or tenants on the Land must have sufficient evidence to prove Lessee's actions were the direct cause of such damages. Furthermore, Lessee shall have the right to seek a judicial ruling on such damages before payment is made to the Lessor or tenants on the Land.

**25. Subordination/Non-Disturbance Agreement.** In the event the leased lands are encumbered by a mortgage, then prior to the payment of any royalties due hereunder and if requested by Lessee, Lessor agrees to obtain a subordination of mortgage in a form acceptable to Lessee. However, Lessee shall be liable for any fees charged by Lessor's lender for any subordination or non-disturbance agreement sought by Lessor.

**26. Release.** In the event this Lease terminates for any reason as to all or any part of the Land, Lessee shall, within 60 days thereafter, deliver to Lessor a recordable release covering all of the Land or that portion of the Land as to which this Lease terminated.

**27. Environmental and Operational Provisions.**

(a) Lessee's operations are being conducted in or near an urban residential area. Therefore, with regard to any well drilled within 1,000 feet of said Land, Lessee shall:

(1) Equip any and all compressors, machinery and drilling equipment with the latest technology in noise suppression, muffling devices and pollution constraints, including for the suppression of dust, vibration, noxious odors, airborne pollutants and harmful fumes;

(2) Employ, as reasonably practical and possible, a Flex 4 Drilling Rig or technologically advanced drilling rig which utilizes all noise suppression devices available;

(3) Not operate or maintain any compressors within one (1) mile of said Land, except ones to be used (i) on the DFW Airport premises, or (ii) solely for initial gas lift purposes

during the initial completion of a well, or (iii) ones that are enclosed behind soundproof buildings or other enclosures;

(4) Maintain noise levels at said Land associated with Lessee's operations not to exceed noise levels specified in the City of Southlake Ordinance 880-A as of the effective date or any future ordinance if said ordinance requires a further reduction in noise levels;

(5) Provide fencing around the drillsite tract in order to reasonably and effectively prevent the migration of vermin and small animals to the adjacent properties and lands; and

(6) While drilling operations are taking place, place lighting directed on the derrick and drill site area for safety reasons, and take all reasonable precautions to avoid directing the lighting onto surrounding neighborhoods and properties.

(b) Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under the Land or lands pooled therewith, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the Land or lands pooled therewith any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response Compensation and Liability Act (CERCLA), 42 U.S. C. Sections 9601, et seq.) or toxic substances under any federal, state or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. **LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND LESSOR, ITS AGENTS, EMPLOYEES, TENANTS, GUESTS, INVITEES AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER OR ABOUT SAID LAND OR LANDS POOLED THEREWITH DURING LESSEE'S OCCUPANCY OR CONTROL OF SAME. LESSEE SHALL CLEAN UP, REMOVE, REMEDY, AND REPAIR ANY SOIL OR GROUND WATER CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER OR ABOUT SAID LAND OR LANDS POOLED THEREWITH DURING LESSEE'S OCCUPANCY OF SAME IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE LESSOR WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT SAID LAND OR LANDS POOLED THEREWITH. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION FOR ANY REASON, OF THIS LEASE.**

(c) **Traffic and Road Usage.** Lessee shall not travel upon or use in any way or manner (including the parking of any vehicles) in any of the inner-residential "local" streets of Lessor's subdivision or neighborhood as defined by the City of Southlake, containing said Land for any of Lessee's operations, except in the event of an emergency situation (and only for so long as said emergency exists) and only if Lessee has obtained a temporary approved truck route from the City of Southlake that includes such streets. Further, trucks weighing in excess of  $\frac{3}{4}$  of a ton shall not be permitted to park overnight within the subdivision or neighborhood containing said Land, except those used by a builder during the construction of improvements. No vehicle of any size which transports inflammatory or explosive cargo may be kept in the subdivision or neighborhood at any time. Lessee shall not use any property in Lessor's subdivision or